



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Paragon Management, Inc. Fiscal Years 2011, 2012 and 2013

Report Number—15-1

July 16, 2014

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John Huppenthal
Superintendent of
Public Instruction

July 16, 2014

Mr. Tim Gonzales, Executive Director
Paragon Management, Inc.
12775 N. 175th Avenue
Surprise, AZ 85388

Dear Mr. Tim Gonzales,

The Arizona Department of Education Audit Unit has conducted an audit of the Paragon Management, Inc. Average Daily Membership for Fiscal Years 2011, 2012 and 2013. The purpose of the audit was to address whether the School properly reported student enrollment and attendance and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School had inaccurately reported some student data for the fiscal years audited, which led to the School's ADM being overstated. As a result, the School was overfunded Basic State Aid by \$5,115.33, which ADE must recoup from to the School.

We appreciate the cooperation and assistance provided by the School's administration during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Paragon Management, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2011 through FY2013.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, auditors will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity also receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. The audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

School financial and other information—The School, located in Surprise, Arizona, maintained two campuses during the fiscal years audited for students in grades K through 12. In FY2013, the School

enrolled a total of 1,807 students. Table 1 presents the School's unaudited student and financial information for FY2011, FY2012 and FY2013.

Table 1

**Paragon Management, Inc.
Total Students, Revenues and Expenditures
FY2011, FY2012 and FY2013
(Unaudited)**

	FY2011	FY2012	FY2013
Students Enrolled	1,557	1,707	1,807
Revenue			
Local	\$743,706	\$788,094	\$827,996
Intermediate	\$500	\$0	\$0
State	\$8,543,820	\$9,906,336	\$10,732,886
Federal	\$903,836	\$561,950	\$607,645
Total Revenues	<u>\$10,191,862</u>	<u>\$11,256,380</u>	<u>\$12,168,527</u>
Total Expenditures	<u>\$10,202,069</u>	<u>\$10,356,470</u>	<u>\$11,556,895</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2011, FY2012 and FY2013.

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported its data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for FY2011, FY2012 and FY2013.

To conduct this audit, auditors used a variety of methods, including examining School and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff.

Additionally, auditors performed specific tasks for the finding. To determine whether the School correctly reported the enrollment data and the FTE status of students to ADE, auditors reviewed the attendance profiles of 83 students who were randomly selected or identified by the School as being enrolled in less than five classes. Auditors then compared this to the data reported in SAIS to determine if there were any adjustments.

The Audit Unit expresses its appreciation to the School's administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$5,115.33

The School did not accurately report some student enrollment data for 15 students to ADE for FY2011, FY2012 and FY2013. Specifically, auditors found that the School misreported enrollment and withdrawal dates for 3 students, failed to report 2 students who had attended the School and improperly reported the FTE status for 10 students. As a result, the School's ADM was overstated by 0.42 for the three fiscal years audited. As a result, the School was overfunded \$5,115.33 which it needs to repay to ADE.

The School Inaccurately Reported Student Data

The School misreported student data for a total of 15 students for all three fiscal years. The School misreported student enrollment data for 5 students resulting in an understatement of 0.86 ADM. Additionally, the School incorrectly reported the FTE status for 10 students resulting in an overstatement of 1.28 ADM. As a result, the School overstated its ADM in all three fiscal years by 0.42.

The School misreported the enrollment data for 5 students—The School misreported the enrollment data for 5 students for all three fiscal years, which resulted in the School's ADM being understated by 0.86. ADE Guideline GE-17¹ states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. Additionally, according to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. However, the School did not always adhere to these requirements. Specifically:

- 3 students had either an incorrect entry or withdrawal date reported to SAIS, which resulted in the School's ADM being overstated by 0.13.
- 2 students were not reported to SAIS; however, School attendance documentation listed the students as being enrolled and attending, which resulted in the School's ADM being understated by 0.99.

As shown in Table 2, student enrollment data errors resulted in a net ADM understatement of 0.86 for FY2011, FY2012 and FY2013.

¹ ADE Guideline GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students, shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school."

Table 2

**Paragon Management, Inc.
ADM Adjustments Due to Enrollment Data Errors
FY2011, FY2012 and FY2013**

Fiscal Year	Incorrect Entry/Exit Date		On SMS, not on SAIS		Total ADM Adjustment
	Number of Students	ADM	Number of Students	ADM	
2011	0	0.00	0	0.00	0.00
2012	3	0.13	1	(0.56)	(0.43)
2013	0	0.00	1	(0.43)	(0.43)
Total	3	0.13	2	(0.99)	(0.86)

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

FTE status for 10 students incorrectly reported—In addition to the data reporting errors, the School did not accurately report the FTE status for 10 students to ADE. According to A.R.S. § 15-901 and ADE External Guidelines and Procedures EX-18 (EX-18), a high school student must be scheduled for at least 720 instructional hours during the year and at least 20 hours per week for the student to be reported as 1.0 FTE². Due to the length of each course at the School, a student needed to be enrolled in at least five courses to be reported as a 1.0 FTE. However, eight students were found by auditors to have been enrolled in less than five courses for at least a portion of the school year. These eight students were calculated and reported incorrectly, which resulted in the overreporting of ADM by the School by 3.15. In addition, two students were reported with a 0.0 FTE in FY2013. However, auditors determined these students were enrolled in the School full time for this year. As a result, the School's ADM was underreported by 1.87 ADM for these two students. As shown in Table 3 (see page 6), these errors resulted in a net overstatement of the School's ADM by 1.28.

Table 3

**Paragon Management, Inc.
ADM Adjustments Due to Incorrectly Reported FTE
FY2011, FY2012 and FY2013**

Fiscal Year	Enrolled in less than 5 courses		Incorrectly reported with a 0.0 FTE		Total ADM Adjustment
	Number of Students	ADM	Number of Students	ADM	
2011	0	0.00	0	0.00	0.00
2012	5	2.80	0	0.00	2.80

² Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least 20 hours per week, a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least 15 hours per week, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least 10 hours per week and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least 5 hours per week.

2013	3	0.35	2	(1.87)	(1.52)
Total	8	3.15	2	(1.87)	1.28

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

Inaccurately reported student data resulted in overreported ADM—As a result of the inaccuracies identified by auditors in the reporting of student data, the School's ADM was overstated. As shown in Table 4, the School's ADM was overstated in both FY2011 and FY2013, and understated in FY2012. In total, the School's ADM was overstated by a net 0.42 for all three fiscal years.

Table 4

**Paragon Management, Inc.
ADM Adjustments Due to Data Reporting Errors
FY2011, FY2012 and FY2013**

	FY2011	FY2012	FY2013	Total
Enrollment Data Errors	0.00	(0.43)	(0.43)	(0.86)
Incorrect FTE	0.00	2.80	(1.52)	1.28
Total	0.00	2.37	(1.95)	0.42

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

The School Must Reconcile Its Reported Data with SAIS

The School can likely avoid errors in the future by ensuring it correctly reconciles its data to the data contained in SAIS. If the School had properly reconciled its data to SAIS, these enrollment errors could likely have been identified, and the School would not have been overfunded because of these errors. The School should review the reports produced by SAIS and reconcile them to the School's SMS data to identify any discrepancies that would affect funding.

The School Was Overpaid \$5,115.33 in Basic State Aid

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data and FTE status reported to ADE for FY2011, FY2012 and FY2013. The data errors reported by the School resulted in its ADM being overstated by 0.42 for the three fiscal years audited. This resulted in the Basic State Aid being overfunded by \$5,115.33, which ADE must recoup. Table 5 shows the ADM and funding adjustments required for the School for FY2011, FY2012 and FY2013.

Table 5

**Paragon Management, Inc.
ADM and Funding Adjustments Due to Data Errors
FY2011, FY2012 and FY2013**

	ADM	Funding
2011	0.00	\$0.00
2012	2.37	\$15,606.31
2013	(1.95)	\$(10,490.98)
Total	0.42	\$5,115.33

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

Recommendations:

1. The School must repay \$5,115.33 in overfunding due to incorrectly reported data.
2. The School must ensure it complies with A.R.S. § 15-901 and ADE Guideline GE-17 when reporting enrollment data to SAIS.
3. The School must ensure it complies with A.R.S. § 15-901 and ADE Guideline EX-18 when calculating and reporting FTE status.
4. The School must reconcile its data each year to ensure it complies with statute and ADE guidelines.

ADM AND FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$5,115.33 for the three fiscal years audited:

- \$(5,120.40) for enrollment data errors; and
- \$10,235.73 for incorrectly reported FTE status.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2011, FY2012 and FY2013.

Table 6

**Paragon Management, Inc.
ADM and Funding Adjustments Required for
FY2011, FY2012 and FY2013**

	FY2011		FY2012		FY2013		Total Adjustment
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	
Enrollment Data Errors	0.00	\$0.00	(0.43)	\$(2,809.96)	(0.43)	\$(2,310.43)	\$(5,120.40)
Incorrect FTE	0.00	\$0.00	2.80	\$18,416.27	(1.52)	\$(8,180.55)	\$10,235.73
Total	<u>0.00</u>	<u>\$0.00</u>	<u>2.37</u>	<u>\$15,606.31</u>	<u>(1.95)</u>	<u>\$(10,490.98)</u>	<u>\$5,115.33</u>

Source: Auditor analysis of SAIS and School student and financial data for FY2011, FY2012 and FY2013.